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FM AMEMBASSY MOGADISHU
TO SECSTATE WASHDC 2011
DEPTOTREAS WASHDC
INFO AMEMBASSY NAIROBI
AMEMBASSY ROME

UNCLAS SECTION 01 OF 08 MOGADISHU 01175

TREASURY FOR OASIA/IDN DEBORAH ROCHA
STATE FOR EB/IFD/ODF FOR CHARLES ENGLISH
AID/PPC/EA FOR KEN KAUFMANN
ROME ALSO FOR MFO/MILLIKEN

E.O. 12356: N/A

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SUBJ: ECONOMIC POLICY PROFILE: SOMALIA

REFS: A) 84 STATE 369917 B) 84 MOGADISHU 1091

11. ECONOMIC PROSPECTS AND POLICIES:

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12. RESOURCES AND INFRASTRUCTURE: SOMALIA IS A LARGE, SPARSELY SETTLED COUNTRY OF 5 MILLION PEOPLE, WHOSE MAJOR RESOURCES ARE ITS LAND AND LOCATION. SITUATED ADJACENT TO THE MARKETS OF THE PERSIAN GULF, AND WITHIN EASY SHIPPING RANGE OF EUROPE, SOMALIA POSSESSES A LAND AREA OF APPROXIMATELY 64 MILLION HECTARES. OF THIS, ABOUT 8.2 MILLION HECTARES ARE ARABLE, BUT, WITH WATER AND AGRICULTURAL LABOR LIMITING FACTORS ONLY ABOUT 900,000 HECTARES ARE UNDER CULTIVATION. OF THE REMAINING LAND, ABOUT 60 PERCENT IS SUITABLE FOR GRAZING WITH THE BALANCE WASTE. ITS FISHING POTENTIAL AND MINERAL RESOURCES REMAIN LARGELY UNKNOWN AND UN-EXPLOITED, THOUGH SIX FOREIGN OIL COMPANIES ARE CURRENTLY ENGAGED IN SURVEYS AND EXPLORATION. THE NATIONAL INFRASTRUCTURE BASE IS WEAK, WITH ONLY TWO MAJOR URBAN CENTERS (MOGADISHU AND HARGEISA), THREE DEEPWATER PORTS (MOGADISHU, KISMAYO AND BERBERA), A POORLY DEVELOPED INTERNAL ROAD NETWORK, AND NO RAILROAD. PUBLIC UTILITY, EDUCATIONAL AND HEALTH SERVICES ARE LARGELY CONFINED TO THE MAJOR CITIES. THE HUMAN RESOURCE BASE IS ALSO WEAK, WITH MANAGERIAL AND TECHNICAL SKILLS PARTICULARLY SCARCE.

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13. STRUCTURE OF THE ECONOMY: THE ECONOMY IS DOMINATED BY THE AGRICULTURAL SECTOR, AND WITHIN AGRICULTURE BY LIVESTOCK PRODUCTION. OVERALL GDP (AT CURRENT MARKET PRICES) WAS ABOUT US DOLS 1.3 BILLION IN 1983; WITH A POPULATION (INCLUDING REFUGEES) OF 5 MILLION, PER CAPITA GDP WAS ABOUT US DOLS 260. LIVESTOCK PRODUCTION NORMALLY ACCOUNTS FOR ABOUT 38 PERCENT OF GDP; 50-60 PERCENT OF TOTAL EMPLOYMENT AND 80 PERCENT OF EXPORT EARNINGS. CROP PRODUCTION CONTRIBUTES ABOUT 7-10 PERCENT OF GDP, WITH BANANAS THE ONLY IMPORTANT EXPORT CROP, AND SORGHUM, MAIZE AND SESAME GROWN FOR LOCAL CONSUMPTION. THE MANUFACTURING SECTOR IS SMALL (7 PERCENT OF GDP), INEFFICIENT, AND DOMINATED BY 38 PUBLIC CORPORATIONS, WHICH NOW ACCOUNT FOR 80 PERCENT OF ALL VALUE ADDED IN MANUFACTURING. DESPITE CHANGES UNDERWAY, SERVICES ARE STILL DOMINATED BY PUBLIC CORPORATIONS, WITH BANKING, INSURANCE AND PORTIONS OF IMPORT AND EXPORT TRADE THE PROVINCE OF PUBLIC SECTOR MONOPOLIES. REMITTANCES REMAIN AN IMPORTANT FACTOR IN NATIONAL INCOME, WITH TRANSFERS FROM 100,000 SOMALIS NOW WORKING IN THE GULF ACCOUNTING IN PAST YEARS FOR UP TO ONE-THIRD OF SOMALIA'S TOTAL FOREIGN EXCHANGE EARNINGS. THE GOVERNMENT IS RELATIVELY STABLE. IN PLACE FOR 15 YEARS, WITH THE SECURITY SERVICES UNDER FIRM CONTROL, IT HAS THUS FAR WEATHERED SUCCESSFULLY DROUGHTS, WARS AND REFUGEE CRISES, AND, MORE RECENTLY, ETHIOPIAN MILITARY PRESSURES ON THE BORDER AND ATTACKS ON NORTHERN TERRITORIES BY DISSIDENT GROUPS BASED IN ETHIOPIA.

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14. RECENT ECONOMIC DEVELOPMENTS: SOMALIA'S OVERALL ECONOMIC PERFORMANCE HAS DETERIORATED BADLY OVER THE PAST TWO YEARS AS A SERIES OF BLOWS TO ITS EXTERNAL

ACCOUNT HAVE COMBINED WITH BURGEONING FISCAL DEFICITS TO RECREATE THE LOW GROWTH, HIGH INFLATION ENVIRONMENT THAT HAD PREVAILED IN THE LATE 1970S. WITH EXPORT EARNINGS CUT TO LESS THAN HALF THEIR 1982 LEVEL (LARGELY AS A RESULT OF SAUDI ARABIA'S 1983 BAN ON CATTLE IMPORTS FROM AFRICA) AND FOREIGN AID FINANCING DOWN 18 PERCENT FROM ITS 1982 PEAK, SOMALIA CLOSED 1984 WITH ITS SEVENTH CONSECUTIVE OVERALL BALANCE OF PAYMENTS DEFICIT, A NEGATIVE NET FOREIGN ASSETS POSITION AND GROSS FOREIGN EXCHANGE RESERVES EQUAL TO BARELY SIX WEEKS OF CASH FINANCED IMPORTS. DEPRESSED BY IMPORT SHORTAGES AND WEAK RAINS, REAL GDP GROWTH IN 1983 SLIPPED TO ONLY 1 PERCENT AND SEEMS IN 1984 LIKELY TO HAVE TOTALLED NO MORE THAN 1 TO 2 PERCENT, EVEN WITH STRONG RAINS AND RECORD CROP PRODUCTION. INFLATION, MEANWHILE, HAS SOARED, RISING FROM AN AVERAGE ANNUAL RATE OF 24 PERCENT IN 1982 TO 36 PERCENT IN 1983 AND 93 PERCENT IN 1984.

15. LOOKING AHEAD TO 1985, PROSPECTS FOR GROWTH AND PRICE STABILITY WILL DEPEND UPON THE WEATHER, SOMALIA'S SUCCESS IN MUSTERING INTERNATIONAL AID SUPPORT FOR ITS PROPOSED IMF STAND-BY ARRANGEMENT, AND THE GOVERNMENT'S CAPACITY TO MAINTAIN ITS COMMITMENT TO THE ECONOMIC REFORM PROCESS. IF THE POLITICAL COMMITMENT IS FIRM, THE RAINS ADEQUATE, AID SUPPORT SUFFICIENT, SOMALIA MAY BE ABLE TO WORK THROUGH ITS PROPOSED STAND-BY ARRANGEMENT TOWARDS CONSISTENT, EXPORT LED GROWTH. IF NOT, SOMALIA COULD WELL REMAIN TRAPPED WITHIN THE LOW GROWTH, HIGH INFLATION VORTEX INTO WHICH IT STUMBLED IN 1983 AND 1984.

16. ON THE DEVELOPMENT SIDE, A WORLD BANK SPONSORED CONSULTATIVE GROUP MEETING ON SOMALIA IN OCTOBER 1983 PROVIDED THE STIMULUS FOR AN INITIAL REVIEW OF SOMALIA'S PUBLIC INVESTMENT PROGRAM, WHICH THE WORLD BANK HAS SINCE FOLLOWED UP WITH STAFF VISITS THROUGHOUT 1984. AS OF THE BEGINNING OF 1985, THE RESULT OF THESE REPEATED REVIEWS IS A PUBLIC INVESTMENT PROGRAM LARGELY FREE OF THE WHITE ELEPHANTS THAT HAD PLAGUED PREVIOUS DEVELOPMENT PLANS, BUT STILL OUT OF PROPORTION TO THE COUNTRY'S REAL FISCAL AND PROJECT MANAGEMENT RESOURCES. RETURNS ON INVESTMENT HAVE BEEN ABSURDLY LOW OVER THE PAST 13 YEARS (BELOW 6.7 PERCENT PER ANNUM ON AVERAGE TO JUDGE FROM GDP GROWTH AND NATIONAL INVESTMENT RATES) AND LIKELY WILL REMAIN LOW IN COMING YEARS, IF MORE CAREFUL CONTROL IS NOT EXERTED OVER THE DISTRIBUTION AND USE OF INVESTMENT FUNDS. A SECOND CONSULTATIVE GROUP MEETING NOW TENTATIVELY SCHEDULED FOR OCTOBER 1985 WILL PROVIDE DONORS WITH A SECOND OPPORTUNITY TO INFLUENCE THIS PROCESS.

17. POLICY FRAMEWORK: SOMALIA HAS TAKEN SIGNIFICANT STEPS OVER THE PAST THREE YEARS TO ESTABLISH THE INCENTIVES, OPPORTUNITIES AND FREE OPERATING ENVIRONMENT THAT ARE CRUCIAL TO THE SUCCESS OF A MARKET-ORIENTED ECONOMIC SYSTEM. IT HAS ENDED PRICE CONTROLS, VIRTUALLY ABOLISHED IMPORT AND EXPORT LICENSING, DEVALUED REPEATEDLY (BY A TOTAL OF 83 PERCENT IN FOREIGN CURRENCY TERMS), AND, IN JANUARY 1985, ESTABLISHED A DUAL FOREIGN EXCHANGE MARKET WITH A FREE AND LEGAL PARALLEL MARKET FOR MOST FOREIGN EXCHANGE TRANSACTIONS. IT HAS ALSO BOOSTED BANKING SYSTEM LOAN AND DEPOSIT RATES BY 8 TO 10 POINTS (IN TWO STAGES OVER THREE YEARS), AND COMPLETELY LIBERALIZED INTERNAL FOODGRAIN MARKETING. HOWEVER, IT HAS NOT BEEN ABLE TO CONSISTENTLY BACK THESE REFORMS WITH THE REQUISITE FISCAL AND MONETARY DISCIPLINE. REAL INTEREST RATES REMAIN NEGATIVE, AND THE EFFECTS OF PAST DEVALUATIONS HAVE BEEN REPEATEDLY WIPED OUT BY EXCESSIVE MONETARY EXPANSION. THE GOVERNMENT HAS ALSO BEEN SLOW TO ATTACK INTERNAL MONOPOLY POSITIONS. WHILE IT HAS ENDED MOST PUBLIC SECTOR TRADING MONOPOLIES, IT HAS LEFT IN PLACE MONOPOLIES IN BANKING, INSURANCE, MANUFACTURING, AND OTHER SECTORS OF THE ECONOMY. IT HAS ALSO LEFT IN PLACE AN UNREALISTIC

(THOUGH LARGELY UNENFORCED) LABOR CODE WHICH OFFICIALLY DEPRIVES EMPLOYERS OF THE RIGHT TO HIRE AND FIRE AS THEY PLEASE. OVERALL, THEREFORE, WHILE SOMALIA HAS TAKEN MANY OF THE BASIC AND MOST CRITICAL STEPS TOWARDS A FREELY OPERATING MARKET ECONOMY OVER THE PAST THREE YEARS, IT STILL NEEDS TO COMPLETE THE TASK WITH ADJUSTMENTS IN INTERNAL MARKET CONDITIONS, AND IMPROVEMENTS IN GENERAL PUBLIC SECTOR MANAGEMENT.

18. PERFORMANCE INDICATORS (AVERAGE ANNUAL GROWTH RATES)

	1972-1980	1981-1983
REAL PER CAPITA INCOME (1)	- 2.7	2.4
MONEY (M1)	23.0	14.6
SAVINGS AND TIME DEPOSITS		
- (QUASI-MONEY)	25.6	23.0
TAXES/GDP	12.7	14.2
CONSUMER PRICES	17.7	34.7

- (1) REAL PER CAPITA GDP AT MARKET PRICES FOR
- NON-REFUGEE POPULATION

19. POLICY INDICATORS

110. MONEY SUPPLY: FISCAL DEFICITS, ONLY PARTIALLY OFFSET BY CONSEQUENTIAL DECLINES IN NET FOREIGN ASSETS, HAVE PROVIDED THE MAJOR IMPETUS FOR MONEY SUPPLY GROWTH IN SOMALIA OVER THE PAST TWELVE YEARS. THE ONLY EXCEPTION TO THIS PATTERN WAS DURING THE 1981 TO 1983 PERIOD, WHEN, UNDER THE GUIDELINES OF A SERIES OF IMF PROGRAMS, NEW NET CREDIT TO THE PRIVATE SECTOR ACCOUNTED FOR VIRTUALLY ALL MONEY SUPPLY GROWTH. WHEN SOMALIA'S IMF PROGRAMS LAPSED IN 1984, HOWEVER, GOVERNMENT DEMAND FOR CREDIT REASSERTED ITSELF, ALONE ACCOUNTING FOR TWO-THIRDS OF A 72 PERCENT INCREASE IN NET DOMESTIC CREDIT DURING THE YEAR'S FIRST NINE MONTHS.

111. MONEY SUPPLY DETERMINANTS: CHANGE IN OUTSTANDING STOCKS (SO.SH. MILLIONS)

	1972-80	1981-1983
M1	2342.7	1526.3
NET DOMESTIC CREDIT TO		
- THE GOVERNMENT	1927.2	- 97.4
NET DOMESTIC CREDIT TO		
- PUBLIC ENTERPRISES	1513.0	- 388.1
NET DOMESTIC CREDIT TO		
- THE PRIVATE SECTOR	111.0	1866.7
NET FOREIGN ASSETS	- 156.1	-2372.4

112. MONETARY POLICY INSTRUMENTS: SOMALIA OPERATES A RELATIVELY SIMPLE FINANCIAL SYSTEM CONSISTING OF A CENTRAL BANK, A COMMERCIAL BANK, A DEVELOPMENT BANK AND A SINGLE INSURANCE COMPANY, ALL GOVERNMENT OWNED. THE CENTRAL BANK TENDS TO RELY UPON QUANTITATIVE CONTROLS ON CREDIT ALLOCATIONS TO CONTROL THE MONEY SUPPLY. THE CENTRAL BANK ALSO HAS POWERS TO FIX INTEREST RATES AND ADJUST COMMERCIAL BANK RESERVE REQUIREMENTS (NOW 10 PERCENT). HOWEVER, IT HAS NOT ADJUSTED RESERVE REQUIREMENTS SINCE 1972, AND INTEREST RATES, WHILE ADJUSTED UPWARDS IN RECENT YEARS, REMAIN NEGATIVE IN REAL TERMS AND INEFFECTIVE IN CONTROLLING THE MONEY SUPPLY. THERE IS NO MONEY MARKET OR OPEN MARKET OPERATIONS IN SOMALIA.

113. FOREIGN EXCHANGE RATE AND MARKET POLICIES: SOMALIA NOW OPERATES A DUAL FOREIGN EXCHANGE MARKET. THE OFFICIAL MARKET, WHICH IS FUNDED BY GOVERNMENT GRANTS AND LOANS AND 35 PERCENT OF ALL EXPORT EARNINGS, PROVIDES FINANCING FOR ALL DEBT AND OTHER OFFICIAL SERVICE PAYMENTS AND FOR ALL PUBLIC SECTOR OIL IMPORTS. THE EXCHANGE RATE IN THIS MARKET IS NOW 36:1 (SHILLINGS TO DOLLARS) AND IS ADJUSTED UPWARDS MONTHLY BY HALF A SHILLING PLUS THE DIFFERENTIAL BETWEEN SOMALIA'S CONSUMER

PRICE INDEX AND THE WEIGHTED AVERAGE OF THE INFLATION RATES OF THE FIVE SDR BASKET CURRENCIES.

¶14. ALL OTHER FOREIGN EXCHANGE TRANSACTIONS; I.E., ALL TRANSACTIONS NOT SPECIFICALLY ASSIGNED TO THE OFFICIAL MARKET, ARE COVERED IN A LEGAL PARALLEL MARKET, WHICH IS FUNDED BY PRIVATE TRANSFERS AND RETAINED EXPORT EARNINGS (65 PERCENT OF ALL EARNINGS). ALL TRANSACTIONS IN THIS MARKET TAKE PLACE THROUGH FOREIGN AND LOCAL CURRENCY ACCOUNTS OF THE COMMERCIAL AND SAVINGS BANK, WHICH CAN BE OPENED BY ANY RESIDENT (FOREIGNER OR NATIONAL) OF SOMALIA. THE EXCHANGE RATE IN THIS MARKET FLOATS, WITH THE COMMERCIAL AND SAVINGS BANK SETTING A DAILY RATE FOR ITS OWN TRANSACTIONS AT THE AVERAGE OF THE PREVIOUS DAY'S MARKET TRANSACTIONS. STARTING AT 75:1 (SHILLINGS TO DOLLARS), THIS BANK RATE HAS MOVED TO 82 IN THE THREE WEEKS SINCE THIS NEW MARKET WAS ESTABLISHED ON JANUARY 2, 1985, AND WILL EVENTUALLY APPROACH THE REAL CURRENT PARALLEL MARKET RATE OF 93 TO 95:1.

¶15. EXCHANGE CONTROLS IN SOMALIA INCLUDE DIRECT RESTRICTIONS ON REMITTANCES OF PROFITS, EARNINGS AND CAPITAL, AND A LICENSING REQUIREMENT FOR ALL CAPITAL INVESTMENTS. UNDER SOMALIA'S CURRENT INVESTMENT LAW, REGISTERED INVESTMENTS WHICH ARE DEEMED "PRODUCTIVE" ARE ENTITLED TO REMIT ANNUALLY EARNINGS EQUIVALENT TO 30 PERCENT OF INVESTED CAPITAL; "NON-PRODUCTIVE" INVESTMENTS ARE PERMITTED NO REMITTANCES FOR THE FIRST SEVEN YEARS, AND REMITTANCES ANNUALLY EQUIVALENT TO ONLY 10 PERCENT OF INVESTED CAPITAL. WAGE EARNINGS OF FOREIGN WORKERS, SIMILARLY, ARE RESTRICTED TO 50 PERCENT OF ANNUAL INCOME. ALL OF THESE RESTRICTIONS REMAIN IN EFFECT UNDER SOMALIA'S NEW DUAL FOREIGN EXCHANGE MARKET SYSTEM. HOWEVER, BECAUSE OF ACCOUNT ARRANGEMENTS AT THE COMMERCIAL BANK, THESE RESTRICTIONS EFFECTIVELY APPLY ONLY TO THOSE FUNDS WHICH ORIGINALLY ARRIVED IN COUNTRY AS EXPORT PROCEEDS.

¶16. GOVERNMENT BUDGET OPERATIONS: CENTRAL GOVERNMENT OPERATIONS HAVE ABSORBED A HIGH AND INCREASING PERCENTAGE OF GDP IN SOMALIA. BETWEEN 1972 AND 1980, CENTRAL GOVERNMENT EXPENDITURES ABSORBED AN AVERAGE OF 22.6 PERCENT OF GDP ANNUALLY, A PERCENTAGE WHICH ROSE TO 26.3 PERCENT BETWEEN 1981 AND 1983. REVENUES, HOWEVER, HAVE NOT KEPT PACE, AVERAGING 15.3 PERCENT OF GDP IN BOTH PERIODS. DEFICITS IN BOTH PERIODS WERE FINANCED PRIMARILY BY FOREIGN GRANTS AND LOANS. IN THE EARLIER PERIOD, HOWEVER, THIS FOREIGN FINANCING WAS SUPPLEMENTED BY SIZEABLE BANKING SYSTEM CREDITS, A REQUIREMENT THAT WAS ELIMINATED BETWEEN 1981 AND 1983 BEFORE REAPPEARING IN 1984.

¶17. CENTRAL GOVERNMENT BUDGET OPERATIONS (AS A PERCENT OF GDP)

	1972-80	1981-83
EXPENDITURES	22.6	26.3
REVENUE	15.3	15.3
DEFICIT	7.3	11.0

¶18. CENTRAL GOVERNMENT DEFICIT FINANCING BY SOURCE (AS A PERCENT OF TOTAL DEFICIT)

	1972-80	1981-83
DEFICIT	100.0	100.0
DOMESTIC FINANCING	38.0	- 2.0
- BANKING SYSTEM	38.0	- 1.5
- OTHER	-	- .5
FOREIGN FINANCING	62.0	103.1
- GRANTS	17.4	40.7
- LOANS	44.6	62.4

19. TAXATION: SOMALIA RAISES THE VAST MAJORITY OF ITS CENTRAL GOVERNMENT REVENUE FROM TAXES ON TRADE AND TRANSACTIONS. ACCORDING TO PRELIMINARY GOVERNMENT ESTIMATES, TAXES ON INCOME AND PROFIT IN 1983 ACCOUNTED FOR ONLY 4 PERCENT OF TOTAL REVENUE; PROPERTY TAXES CONTRIBUTED 5 PERCENT; WHILE LEVIES ON PUBLIC ENTERPRISES AND DEPARTMENTAL SURPLUSES ACCOUNTED FOR 17 PERCENT. THE BALANCE WAS COVERED BY TAXES ON IMPORTS (51 PERCENT OF TOTAL REVENUE), EXPORTS (3 PERCENT), EXCISE TAXES (12 PERCENT) AND STAMP TAXES (6.8 PERCENT). RATES VARIED BY SOURCE. ON PERSONAL INCOME EARNED FROM EMPLOYMENT, TAX RATES RANGED FROM ZERO FOR EARNINGS LESS THAN US DOLS 6 PER MONTH TO 18.9 PERCENT FOR EARNINGS ABOVE US DOLS 42 PER MONTH. FOR OTHER PERSONAL INCOME, RATES RANGE FROM ZERO FOR EARNINGS LESS THAN US DOLS 67 PER YEAR TO 30 PERCENT FOR EARNINGS ABOVE US DOLS 835 PER YEAR. PRIVATE CORPORATE PROFITS ARE TAXED AT A FLAT 35 PERCENT RATE. SPECIFIC EXCISE TAXES ARE LEVIED ON SUGAR, TOBACCO, MATCHES, BEVERAGES, MINERAL WATER, SOAP AND SHAMPOO; A GENERAL 5 PERCENT SALES TAX HAS ALSO BEEN DEVELOPED WHICH WILL APPLY TO ALL BUT ESSENTIAL GOODS. CUSTOMS DUTIES AVERAGE 60-65 PERCENT OF THE VALUE OF DUTIABLE MERCHANDISE AND ARE APPLIED AT RATES THAT RANGE FROM ZERO TO OVER 100 PERCENT ON 120 PERCENT OF THE L/C VALUE OF IMPORTED COMMODITIES VALUED AT AN ADMINISTRATIVE RATE OF 60:1 (SHILLINGS TO DOLLARS). EXPORT TAXES ARE APPLIED ON ALL MAJOR EXPORTS AT RATES RANGING UP TO 30 PERCENT OF FOB VALUE. ADMINISTRATIVE AND STATISTICAL TAXES ARE ALSO APPLIED AT A 10 PERCENT AD VALOREM RATE TO ALL IMPORTS AND EXPORTS. TAXES ON PUBLIC ENTERPRISES INCLUDE A TURNOVER TAX (APPLIED AT A RATE OF 50 PERCENT ON NET PROFIT), A PROFIT TAX (APPLIED AT A 35 PERCENT RATE AFTER DEDUCTION OF THE TURNOVER TAX) AND A 50 PERCENT GOVERNMENT SHARE IN ANNUAL DEPRECIATION ALLOWANCES.

20. PRICING POLICIES: CONSUMER PRICES: SOMALIA OFFICIALLY ENDED ALL CONSUMER PRICE CONTROLS IN JANUARY 1985. OIL PRODUCTS WHICH ARE IMPORTED BY A GOVERNMENT TRADING AGENCY OPERATING AT THE OFFICIAL (36:1) EXCHANGE RATE, ARE STILL AVAILABLE AT WHAT AMOUNTS TO SUBSIDIZED PRICES (E.G., 17 SHILLINGS PER LITER OF GASOLINE). ALL OTHER PRICES, HOWEVER, INCLUDING PRICES FOR ELECTRICITY AND WATER, HAVE BEEN ADJUSTED TO REFLECT FULL COSTS AT THE PARALLEL MARKET RATE OF EXCHANGE.

21. PRODUCER PRICES: AGRICULTURAL MARKETS AND PRICES WERE LARGELY DECONTROLLED BY SOMALIA IN JANUARY 1984, AND, IN THE YEAR SINCE, BASIC FOOD PRICES HAVE RISEN TO MARKET RATES. THE AGRICULTURAL DEVELOPMENT CORPORATION, THE GOVERNMENT TRADING AGENCY WHICH PREVIOUSLY HELD A MONOPSONY ON ALL GRAIN PURCHASES IN SOMALIA, STILL HOLDS THE LEGAL RIGHT TO PURCHASE UP TO 5 PERCENT OF EACH YEAR'S CROP, BUT HAS NOT EXERCISED THAT RIGHT IN RECENT YEARS. BANANA EXPORTS FROM SOMALIA ARE ENTIRELY UNDER THE CONTROL OF A PRIVATE/PUBLIC JOINT VENTURE, WHICH, OBLIGED IN THE PAST TO OPERATE AT THE OFFICIAL EXCHANGE RATE, HAS NOT ALWAYS OFFERED COMPETITIVE PRICES FOR EXPORT QUALITY FRUIT. NOW FREE TO OPERATE AT THE PARALLEL MARKET RATE OF EXCHANGE, IT SHOULD BE ABLE TO OFFER COMPETITIVE PRICES IN THE FUTURE.

22. STATE ENTERPRISE PRICES: THE PRICE DECONTROL INTRODUCED IN JANUARY 1985 HAS LEFT ALL PUBLIC ENTERPRISES WITH FULL FREEDOM TO SET INPUT AND OUTPUT PRICES AT LEVELS THAT WILL FULLY COVER COSTS. MANY, HOWEVER, ENJOY MONOPOLY POSITIONS IN THE ECONOMY, AND HAVE NOT BEEN FORCED BY COMPETITIVE PRESSURES OR PRICE DEVELOPMENTS ELSEWHERE IN THE ECONOMY TO MOVE THEIR PRICES TO ECONOMIC LEVELS. IN THIS CLASS OF PUBLIC AND PRIVATE MONOPOLIES ARE THE

COMMERCIAL AND SAVINGS BANK; THE STATE INSURANCE COMPANY OF SOMALIA; THE NATIONAL PETROLEUM AGENCY, WHICH CONTROLS OIL IMPORTS; THE SOMALI COOPERATIVE MOVEMENT, WHICH CONTROLS IN-COUNTRY OIL DISTRIBUTION AND, THROUGH THE FRANKINCENSE AND MYRRH AGENCY, EXPORTS OF AROMATIC GUMS; THE SOMALI LEATHER AGENCY, WHICH CONTROLS EXPORTS OF HIDES AND SKINS, ASPIMA, WHICH CONTROLS IMPORTS OF VETERINARY DRUGS; SOMALFRUTTA, WHICH CONTROLS EXPORTS OF BANANAS; THE SOMALI SHIPPING AGENCY, AND THE SOMALI CLEARING AND FORWARDING AGENCIES.

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123. SAVINGS AND INVESTMENT POLICIES: THE PUBLIC ENTERPRISES: THERE ARE NOW 51 PARASTATAL CORPORATIONS OPERATING IN SOMALIA, INCLUDING FIVE FINANCIAL, 33 NON-FINANCIAL AND EIGHT NON-COMMERCIAL PUBLIC ENTERPRISES, WHICH TOGETHER DOMINATE MOST BANKING, INSURANCE, AND MANUFACTURING INDUSTRIES IN SOMALIA. DURING THE 1970'S THESE ENTERPRISES WERE NOT TREATED PRIMARILY AS PROFIT-MAKING COMMERCIAL OPERATIONS, BUT OFTEN AS SOURCES OF FUNDS FOR THE CENTRAL GOVERNMENT AND INSTRUMENTS FOR THE PURSUIT OF SOCIAL WELFARE POLICIES. SURPLUSES WERE TAXED AWAY BY HIGH PROFIT TAXES AND GOVERNMENT CLAIMS ON DEPRECIATION ALLOWANCES; WAGES AND EMPLOYMENT WERE DISTORTED BY CENTRAL GOVERNMENT POLICIES, AND PRICES FOR BOTH INPUTS AND OUTPUTS MAINTAINED AT UNREALISTICALLY LOW LEVELS. BEGINNING IN 1981, SOMALIA HAS TAKEN SOME STEPS TO ADDRESS THESE PROBLEMS. THREE PUBLIC ENTERPRISES HAVE BEEN CLOSED; OTHERS HAVE BEEN PROVIDED WITH FOREIGN MANAGERIAL ASSISTANCE. THE REST ARE BEING REVIEWED TO DETERMINE WHICH TO RETAIN AS SERVICE INSTITUTIONS ON PUBLIC SUBSIDIES, WHICH TO DIVEST OR CLOSE, AND WHICH TO ESTABLISH AS COMMERCIAL ENTERPRISES IN COMPETITIVE MARKETS. DECISIONS HAVE ALSO BEEN TAKEN TO GRANT ALL PUBLIC ENTERPRISES AUTONOMY IN REGARD TO WAGE, EMPLOYMENT AND PRICING DECISIONS, AND WHERE POSSIBLE, TO ELIMINATE THE REMAINING PUBLIC SECTOR MONOPOLIES IN TRADE, BANKING AND SERVICES. PROGRESS IN IMPLEMENTING THESE DECISIONS, HOWEVER HAS BEEN SLOW.

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124. PRIVATE INVESTMENT: INCENTIVES: SOMALIA'S CURRENT INVESTMENT LAW OFFERS NEW INVESTMENTS TAX HOLIDAYS ON ALL INCOME, IMPORT, EXCISE AND PROPERTY TAXES FOR PERIODS OF UP TO FIVE YEARS. IT ALSO GUARANTEES REMITTANCES AT THE RATES OUTLINED ABOVE. IN ADDITION, THE NEW FOREIGN EXCHANGE MARKET ARRANGEMENTS, FACILITIES FOR REMITTANCES ABOVE THE RATES DEFINED IN THE LAW ARE AVAILABLE IN THE NEW LEGAL PARALLEL MARKET. SOMALIA HAS NEGOTIATED A BILATERAL INVESTMENT TREATY WITH THE FEDERAL REPUBLIC OF GERMANY, WHICH PROVIDES FOR MOST FAVORED NATION OR NATIONAL TREATMENT FOR GERMAN INVESTORS, PROMPT AND ADEQUATE COMPENSATION IN CASE OF EXPROPRIATION, AND FREE TRANSFER OF CAPITAL, DIVIDENDS, INTEREST AND EARNINGS. IT ALSO HAS UNDER CONSIDERATION TWO DRAFT BILATERAL INVESTMENT TREATIES WITH THE UNITED STATES AND GREAT BRITAIN.

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125. DISINCENTIVES: DISINCENTIVES TO PRIVATE INVESTMENT INCLUDE THE COUNTRY'S GENERAL INFRASTRUCTURAL AND INSTITUTIONAL WEAKNESSES, THE CONTINUING THREAT OF POLITICAL OR ECONOMIC INSTABILITY, THE PRE-EMPTION OF INVESTMENT OPPORTUNITIES BY PUBLIC AND PRIVATE MONOPOLIES, A CONTINUING UNCERTAINTY REGARDING MARKET FREEDOMS, THE CONTINUING RESTRICTIONS ON WAGE AND CAPITAL REMITTANCES, THE LACK OF A WELL DEFINED BODY OF COMPANY AND COMMERCIAL LAW, AND AN ONEROUS (THOUGH UNENFORCED) LABOR CODE WHICH OFFICIALLY DEPRIVES THE EMPLOYER OF THE RIGHT TO HIRE AND FIRE FREELY, MANDATES AN UNECONOMICALLY HIGH LEVEL OF WORKER BENEFITS, AND RESTRICTS THE EMPLOYMENT OF FOREIGN NATIONALS. A REVIEW OF INVESTMENT LAW NOW UNDER WAY MAY ELIMINATE SOME OF THE RESTRICTIONS NOW IMPOSED ON REMITTANCES, AND PROVIDE A FULLER SET OF PROPERTY RIGHTS FOR NEW INVESTORS.

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126. LEVELS OF PUBLIC AND PRIVATE INVESTMENT: THERE HAVE BEEN WIDE FLUCTUATIONS IN PRIVATE SECTOR SAVINGS AND INVESTMENT OVER THE PAST 13 YEARS, AS WEATHER INDUCED FLUCTUATIONS IN INVENTORY ACCUMULATION IN THE ALL-IMPORTANT LIVESTOCK SECTOR OVERWHELMED RELATIVELY LOW LEVELS OF PRIVATE SECTOR FIXED CAPITAL FORMATION. PUBLIC SECTOR SAVINGS AND INVESTMENT HAVE ALSO VARIED WIDELY AS WARS, DROUGHTS AND REFUGEE CRISES HAVE REPEATEDLY SWELLED RECURRENT EXPENDITURES. OVERALL, DOMESTIC INVESTMENT TOTALLED APPROXIMATELY 18 PERCENT OF GDP (10 PERCENT PUBLIC, 8 PERCENT PRIVATE) BETWEEN 1972 AND 1980, RISING TO 21 PERCENT (10 PERCENT PUBLIC, 11 PERCENT PRIVATE) BETWEEN 1981 AND 1983. SAVINGS LAGGED, TOTALLING ONLY 3 PERCENT OF GDP (MINUS 7 PERCENT PUBLIC, 10 PERCENT PRIVATE) IN 1972 TO 1980, AND 4 PERCENT OF GDP (MINUS 10 PERCENT PUBLIC, 14 PERCENT PRIVATE) BETWEEN 1981 AND 1983. THE BALANCE OF INVESTMENT EXPENDITURES WERE COVERED BY FOREIGN GRANTS AND LOANS, AND REMITTANCES, WHICH TOGETHER AVERAGED 15 PERCENT OF GDP BETWEEN 1972 AND 1980, AND 18 PERCENT OF GDP BETWEEN 1981 AND 1983. FOR 1984 TO 1986, SOMALIA HAS PROPOSED A PUBLIC INVESTMENT PROGRAM WHICH WOULD RAISE NATIONAL INVESTMENT TO 23 PERCENT OF GDP (16 PERCENT PUBLIC AND 7 PERCENT PRIVATE) FINANCED ENTIRELY BY FOREIGN GRANTS AND LOANS (25.5 PERCENT OF GDP). WITH FOREIGN FINANCING AND THE PUBLIC SECTOR'S OWN ABSORPTIVE CAPACITY SETTING LIMITS TO PUBLIC SECTOR ACTIVITIES, HOWEVER, ACTUAL PUBLIC SECTOR INVESTMENT TOTALLED ONLY ABOUT 9 PERCENT OF GDP IN 1984 - A RATE THAT LIKELY WILL HOLD FOR THE NEXT TWO TO THREE YEARS.

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127. SAVINGS AND INVESTMENT (AS SHARES OF GDP):

	1972-80	1981-83
INVESTMENT	18.4	21.1
- PUBLIC	10.0	10.1
- PRIVATE	8.4	11.0
DOMESTIC SAVINGS	3.0	3.6
- PUBLIC	- 7.2	- 10.2
- PRIVATE	10.2	13.8
REMITTANCES	1.6	1.8
FOREIGN GRANTS AND LOANS	13.8	15.7

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128. AID ASSISTANCE: DISBURSEMENTS OF GRANTS AND LOANS TO SOMALIA FROM ALL OFFICIAL SOURCES FOR ALL USES (REFUGEE, DEVELOPMENT AND BALANCE OF PAYMENTS ASSISTANCE) HAS INCREASED RAPIDLY OVER THE PAST NINE YEARS, RISING FROM SLIGHTLY OVER US DOLS 120 MILLION IN 1975 TO APPROXIMATELY US DOLS 300 MILLION IN 1983, BEFORE DROPPING OFF SLIGHTLY IN 1984 TO APPROXIMATELY US DOLS 260 MILLION. GRANTS ACCOUNTED FOR A GRADUALLY INCREASING PROPORTION OF THIS ASSISTANCE (ABOVE 50 PERCENT IN 1984), AND LOANS, INCLUDING LOANS FROM THE IMF AND ARAB MONETARY FUND, FOR THE BALANCE. MAJOR DONORS AND LENDERS INCLUDED SAUDI ARABIA, KUWAIT, THE UNITED STATES, ITALY, THE FEDERAL REPUBLIC OF GERMANY, THE EEC, THE IBRD, THE IMF, THE ARAB FUND FOR ECONOMIC DEVELOPMENT AND THE ISLAMIC DEVELOPMENT BANK. FOR 1985 AND 1986, SOMALIA HAS PROJECTED FURTHER GRANT AND LOAN DISBURSEMENTS OF APPROXIMATELY US DOLS 900 MILLION, THOUGH ACTUAL DISBURSEMENTS MAY FALL SOMEWHAT SHORT OF THIS TARGET.

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129. PARALLELING THE RAPID INCREASE IN AID DISBURSEMENTS HAS BEEN AN EQUALLY RAPID RISE IN SOMALIA'S EXTERNAL DEBT. BETWEEN YEAR END 1979 AND YEAR END 1984, SOMALIA'S TOTAL EXTERNAL DEBT ROSE TO APPROXIMATELY US DOLS 1445 MILLION, UP US DOLS 848 MILLION

FROM THE US DOLS 597 MILLION LEVEL WHICH HAD PREVAILED AT THE CLOSE OF 1979. THANKS TO EXTENSIVE REFINANCING ARRANGEMENTS, (WITH MIDDLE EASTERN CREDITORS, IN PARTICULAR), OVERALL DEBT SERVICE PAYMENTS HAVE REMAINED MANAGEABLE (50 PERCENT OF GOODS AND SERVICE EXPORTS IN 1984). WITHOUT FURTHER RESCHEDULINGS, HOWEVER, DEBT SERVICE PAYMENTS WILL RISE TO, AND MAY EXCEED, THE TOTAL OF SOMALIA'S GOODS AND SERVICE EXPORTS OVER THE NEXT THREE YEARS.

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¶30. SOURCES: THE PRIMARY SOURCES USED IN COMPILING THIS REPORT WERE THE WORLD BANK'S PRELIMINARY ESTIMATES OF NATIONAL ACCOUNT AGGREGATES PUBLISHED IN AUGUST 1984, THE IMF'S REVIEW OF SOMALIA'S STAND-BY ARRANGEMENT PUBLISHED IN APRIL 1984, THE IMF'S DRAFT FINANCIAL PROGRAM FOR SOMALIA'S PROPOSED 1985 STAND-BY ARRANGEMENT, WHICH WAS DEVELOPED IN NOVEMBER 1984, AND THE IMF'S GOVERNMENT FINANCIAL STATISTICS YEARBOOK FOR 1983, INTERNATIONAL FINANCIAL STATISTICS YEARBOOK FOR 1984, AND REPORT ON EXCHANGE ARRANGEMENTS AND EXCHANGE RESTRICTIONS FOR ¶1984. THE BALANCE OF PAYMENTS AND CENTRAL GOVERNMENT FISCAL DATA FOR 1983 AND 1984 ARE PRELIMINARY. THE MONETARY DATA IS RELIABLE THROUGH THE CLOSE OF 1983. THE NATIONAL ACCOUNTS DATA ARE RELIABLE THROUGH THE CLOSE OF 1982.

BRIDGES